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July 24, 2007

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PUBLIC SERVICE
COMMISSION

Via Hand Delivery

The Honorable Charles L. A. Terreni
Chief Clerk and Administrator
The Public Service Commission of S.C.
P. O. Drawer 11649
Columbia, S.C. 29211

RE: Docket No. 1997-239-C/Proceeding to Establish Guidelines for an Intrastate Universal Service Fund ("USF")

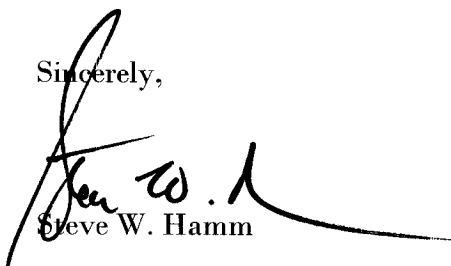
Dear Mr. Terreni:

Pursuant to the Public Service Commission's Order addressing cost studies and administrative issues (Order No. 2007-422), enclosed for filing are an original and one copy of Verizon South Inc.'s ("Verizon") Brief and Comments. By copy of this letter, I am serving all parties of record with a copy of the Brief and Comments as indicated on the attached Certificate of Service.

If you should have any questions concerning this matter please contact my office.

With kind personal regards, I am

Sincerely,


Steve W. Hamm

Enclosures

cc: All Parties of Record

**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 97-239-C

IN RE:

Proceeding to Establish Guidelines)
For the Universal Service Fund)
_____)

BRIEF AND COMMENTS

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Pursuant to the Commission's Order Addressing Cost Studies and Administrative Issues (Order No. 2007-422), Verizon South Inc. ("Verizon") submits this brief describing its proposed approach regarding an update to its cost study and comments on the administrative issues identified in the Order.

A. Approaches to Updating Cost Study

The Commission's requirement that the parties update the cost studies and resultant cost per line used in the calculations for the Universal Service Fund raises certain operational concerns for Verizon, and presumably for any other carrier whose costs were earlier prescribed using the Benchmark Cost Proxy Model (BCPM). Verizon no longer supports this model, and has not advocated its use, in any proceeding nationwide, for several years. As a practical matter, therefore, Verizon will be required to do more than update the old cost model.

The primary concern is that while it is possible to simply generate new inputs for the old model (which, of course, still exists as dated software) it would be difficult – and counterproductive – to make any change to the underlying processes and algorithms of the

model. Because other models have advanced significantly past BCPM, the cost associated with updating the old model itself would be both substantial and wasteful.

Similarly, improvements to key features such as transparency, user interface and sensitivity analysis, each of which has been a hallmark of more recent cost model designs are theoretically possible for BCPM, but Verizon is not aware of a carrier or entity that would be willing to undertake such an effort. Thus, any update to the inputs would be limited to a simple replacement of old numbers with new ones, with no representation from Verizon (or any BCPM-using party) that the model best reflects actual costs per line. This does not present an effective method for administering a universal service fund, because it arbitrarily adheres to a methodology not even supported by its previous sponsors. Worse, it potentially runs afoul of federal law. The Telecommunications Act of 1996 specifies that states shall:

establish any necessary cost allocation rules, accounting safeguards, and guidelines to ensure that services included in the definition of universal service bear no more than a reasonable share of the joint and common costs of facilities used to provide those services.

47 U.S.C. § 254(k); *see also, id.* at § 254(f) (mandating “specific, predictable, and sufficient mechanisms . . .”). Use of a dated model, without a reasonable likelihood of implementing changes to it, seems at odds with a requirement for “necessary . . . accounting safeguards,” or “sufficient mechanisms” by which to operate.

To achieve the Commission’s goal of obtaining updated information, one of two approaches might be taken. The first, which Verizon recommends, would be for parties to be allowed to present their proposed cost models, along with their inputs and outputs, so they can be reviewed by the parties and the Commission. Verizon estimates it would take three (3) months to gather the information and produce the study.

The parties could then comment on the models and the Commission could make a decision and require any necessary follow-up so that final figures could be generated by the models. Such a proceeding could move relatively quickly and produce the information the Commission has requested.

The second approach would involve a more traditional, comprehensive universal service fund proceeding in which cost models are proposed, examined by Staff and the parties, and then one or more such models are approved by the Commission after testimony, examination of the parties, and briefing. Thereafter, a proceeding, akin to that conducted in 1997, would be appropriate. Parties would be permitted to offer cost studies and testimony, a hearing would be conducted, and then the matter briefed and deliberated.

If the Commission chooses the more comprehensive approach, such a proceeding should be scheduled so that the eventual result of the Intercarrier Compensation proceedings pending before the FCC do not render this Commission's efforts moot. *See, e.g.,* Further Notice of Proposed Rulemaking *In re Developing a Unified Intercarrier Compensation Regime*, CC Dkt. No. 01-92, FCC 05-33 (rel. Mar. 3, 2005) (and its resultant *Missoula Plan*). It plainly makes no sense to engage in a resource-intensive universal service proceeding on what may be the very cusp of sweeping changes to the entire intercarrier compensation process.

B. Administrative Issues

The Commission identified four administrative issues on which it sought comments. The issues and Verizon's responses are provided below.

1. Changing the fund year to match the state fiscal year. The Office of Regulatory Staff ("ORS") states that it would be more administratively efficient to close

out the fund fiscal year at the end of the state's fiscal year. Verizon does not oppose this request.

2. Considering whether the fund should be adjusted semi-annually. ORS requests that carrier information be submitted in April each year, which Verizon does not oppose. ORS also suggests that the fund be adjusted in the second half of the year based on subsequent information it receives. Verizon opposes this request because whatever benefits might be gained would not be worth the administrative cost.

3. Establishing a time limitation for identifying reporting errors regarding overpayments. ORS requests that the time for identifying reporting errors be limited to two years after the reporting period in question. Verizon does not oppose this request.

4. Charging a fee for carriers filing USF reports late. ORS seeks to penalize late filers, but does not specify what penalty it would apply. Although Verizon does not disagree in principle with providing an incentive for carriers to file on time, such a fee should not be overly punitive.

Respectfully submitted on July 24, 2007.

By: 

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**BEFORE
THE PUBLIC SERVICE COMMISSION OF
SOUTH CAROLINA**

DOCKET NO. 97-239-C

IN RE:

Proceeding to Establish Guidelines)
For an Interstate Universal)
Service Fund)

CERTIFICATE OF SERVICE

This is to certify that I have caused to be served this day, July 16, 2007 (1) copy of Verizon's Brief filed pursuant to the Public Service Commission's Order No. 2007-422 in the above referenced docket by placing a copy of same in the care and custody of the United States Postal Service, first class postage prepaid to the following Parties of Record:

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